



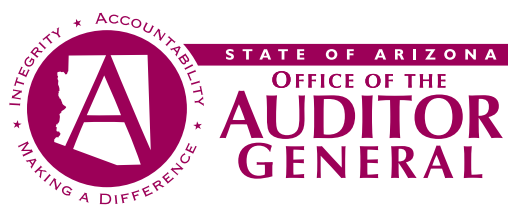
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Queen Creek Unified School District No. 95

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 17, 2004

Governing Board
Queen Creek Unified School District No. 95
20740 South Ellsworth Road
Queen Creek, AZ 85242-9314

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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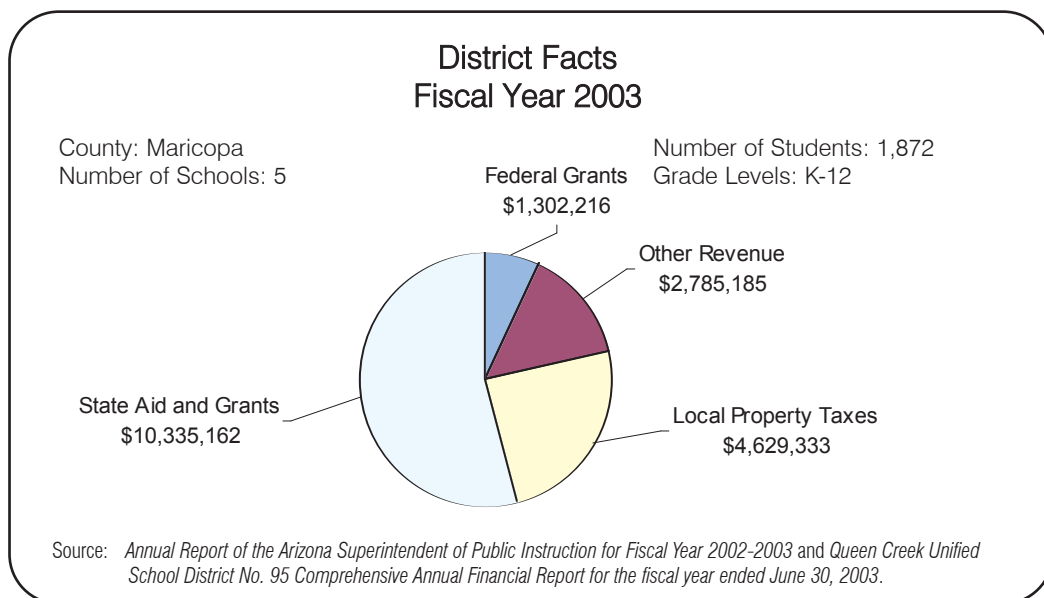
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INTRODUCTION

Queen Creek Unified School District No. 95 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$19 million it received in fiscal year 2003 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should improve controls over cash and bank accounts

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources including food service sales, catering sales, auxiliary operations, and student activities, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash, ensure that cash is promptly and accurately recorded and deposited, and that bank accounts are used as authorized by Arizona Revised Statutes (A.R.S.). These controls require that the District document amounts received, deposit cash receipts timely, retain support for checks written, and issue checks only for allowable purposes. However, the District did not establish and follow proper procedures for collecting and spending these monies. Employees did not prepare prenumbered and numerically controlled invoices and cash receipt forms for its catering sales and collections and did not write off unpaid and uncollectible catering receivables. Also, auxiliary operations ticket logs were not maintained and cash collection reports were not prepared for auxiliary operations or student activities events to reconcile sales to cash collected. As a result, the District could not verify that all receipts were recorded and deposited. In addition, the District did not always deposit food service, auxiliary operations, and student activities receipts in a timely manner.

Further, the District did not always prepare and retain documentation to support auxiliary operations expenditures and student activities disbursements or maintain appropriate journals or ledger cards to account for the financial activity for auxiliary operations and the various student clubs. Also, the District did not submit student activities monthly reports to the Governing Board.

Finally, the District used its auxiliary operations and student activities bank accounts to account for its principals' supplies account monies, which is not an authorized use of these bank accounts. Also, some expenditures from principals' supplies monies were not authorized by A.R.S. §15-354.

Recommendations

To help strengthen controls over receipts and disbursements, the District should:

Receipts

- Prepare prenumbered and numerically controlled invoices for billing catering sales.
- Periodically review catering receivables, attempt to collect unpaid amounts, and write off uncollectible accounts at fiscal year end.

- Establish and follow proper cash collection procedures for catering, auxiliary operations, and student activities that require selling tickets, preparing prenumbered cash receipts forms, or recording item counts before and after a sale.
- Prepare auxiliary operations ticket logs to record beginning and ending ticket numbers, date, school, and total number of tickets issued.
- Prepare cash collection reports to document sales and reconcile sales to actual cash collections for auxiliary operations and student activities. If it is not practical to sell tickets or count items before and after a sale for student activities, such as bake sales, clubs should prepare cash collection reports to document cash collected.
- Deposit cash receipts intact daily, when significant, or at least weekly.
- Remit monies deposited in clearing accounts to the County Treasurer weekly, or at least monthly.

Sample forms to record cash collections and reconcile sales to cash collected can be found on USFR pages X-G-17 and 21 and X-H-21.

Disbursements

- Prepare and maintain documentation such as purchase requisitions, purchase orders, receiving reports, and vendor invoices to support auxiliary operations and student activities disbursements.
- Ensure that principals' supplies expenditures are made from the separate bank account established for that purpose and are allowable by law.
- Ensure that the student activities and auxiliary operations bank accounts are used only for designated purposes.

Principals' supplies activity should be accounted for in a principals' supplies bank account only and spent in accordance with A.R.S. §15-354.

Accounting Records

- Maintain cash receipts and disbursements journals for auxiliary operations accounts, and a cash receipts and disbursements journal and a cash and investments ledger for student activities accounts.
- Prepare and submit a monthly report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board.

A sample monthly activity report is illustrated on USFR page X-H-28.

The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements and, therefore, could not ensure that it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bidding threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not issue invitations for bids for purchases that exceeded the sealed bidding threshold and did not always obtain oral or written price quotations for purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$32,899.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9, and USFR Memorandum No. 209.

The District should provide for effective stewardship over its capital assets

The District did not have a complete and accurate record of its capital assets.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets. However, the District did not update its capital assets list for all acquisitions, disposals, and other activity. In addition, the District did not record amounts paid for ongoing construction projects on its capital assets list.

Recommendations

The following procedures can help the District improve control over its capital assets and ensure an accurate and complete capital assets list:

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- Update the capital assets list for items acquired, disposed of, or moved to different locations at least annually.
- Record all costs incurred during capital asset construction as construction in progress on the capital assets list until construction is completed. When construction is completed, reclassify the asset from construction in progress to the proper asset category on the capital assets list.

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure its accounting records are accurate and complete. However, the District's accounting records were not always accurate and did not include all transactions. Specifically, the District did not allocate tuition revenue among its funds accurately, and amounts withheld from employee pay for federal income taxes could not always be supported. In addition, the District did not adjust its accounting records for errors identified in prior audits. As a result, the fund balance for the E-rate Fund was overstated, and current-year E-rate expenditures had to be paid from the Maintenance and Operation (M&O) Fund. Therefore, the District exceeded its 2003 approved budget for the M&O Fund.

The District exceeded its Maintenance and Operation Fund budget as a result of inaccurate accounting records.

Recommendations

The following procedures can help the District record and report accurate accounting information:

- Allocate tuition revenues to the M&O, Capital Outlay, and Debt Service Funds based on amounts charged to the students' district.
- Maintain accurate personnel files, including federal withholding allowance forms, for all employees to support payroll expenses and serve as a basis for preparing accurate payroll vouchers and registers.
- Post adjustments to accounting records in a timely manner.
- Submit an amended annual financial report to ADE for adjustments made to the accounting records after the original report was submitted that affect amounts previously reported.